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OFFICE OF THE
EXECUTIVE SECRETARY

December 3, 2001

Mr. David Waddell
Executive Secretary
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243

Dear David:

Re: Docket 01-00623 Computation of the December 1, 2001 Price Regulation
Index and Service Price Index

We appreciate the opportunity to meet with the staff on November 30, 2001 to discuss the 2001 BellSouth Price Regulation Filing. At that meeting, two issues were discussed.

First, pursuant to the TRA's final order in docket 97-01438, "UTSE Tariff No. 97-361 To Reflect The 1997 Price Cap Adjustment", Basic Rate ISDN is currently included in the basic basket. On March 20, 2001 the Tennessee Court of appeals ruled that under Tennessee law, Basic Rate ISDN is a non-basic service. On September 10, 2001 the Tennessee Supreme Court refused to consider the case. In accordance with the court mandate, BellSouth agrees to move Basic Rate ISDN to the non-basic basket. This change will neither increase nor decrease the headroom in either the basic or non-basic basket.

Second, BellSouth's intended treatment of the non-basic portion of the TRA ordered January 28, 2001 PTAS line reduction filing that was retroactive to April 1, 1997 would have resulted in the generation of \$657,708 of headroom. The TRA ordered this reduction pursuant to directives from the FCC.

Pursuant to the same FCC directives, the TRA had in 1997 ordered the removal of any payphone subsidy that existed in BellSouth's rates. The subsidy was calculated to be \$788,271 and the removal accomplished by a reduction in intrastate access rates, effective April 1, 1997.

The subsidy calculation was based on PTAS line rates, which were in effect prior to April 1, 1997, and is thus overstated. In fact, the TRA ordered recalculation of the subsidy based on the PTAS line rates that are currently in effect indicates there was no subsidy to be removed. Thus, the April 1, 1997 \$788,271 reduction in non-basic access line rates was not necessary. Changes in non-basic rates at the appropriate time will be necessary to address this subsidy issue on a going forward and historical basis. Based on this, BellSouth agrees with the staff's position that it is not appropriate for BellSouth to also receive headroom from the \$657,708 reduction in non-basic PTAS line rates.

BellSouth has appealed the TRA ordered PTAS line rates to the Tennessee Appeals Court. Until such time as all options for review that are available to BellSouth or the other the parties to the case have been exhausted, the correct subsidy amount cannot be determined. Therefore, it is not appropriate to address the subsidy issue at this time.

Although BellSouth intended to capture this headroom when the 2001 Price Regulation Filing was made, it is not included in the filed headroom amount of \$15,889,337 as stated on Workpaper A and Workpaper B. This is due to an error introduced when certain PTAS items were moved from the non-basic basket to the basic basket. The result of this error is that the available headroom that appears in section A7/9 of the non-basic portion of the filing was not brought forward to Workpaper A and Workpaper B. BellSouth agrees to adjust the reference rates for the non-basic items in section A7/9 to zero. This change will neither increase nor decrease the headroom in either the basic or non-basic basket.

BellSouth will submit a revised filing no later than December 12, 2001 to incorporate these two agreed changes.

Sincerely,

Charlie Hottel